

Message Text

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ACTION EB-07

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PASS TREASURY, EXIMBANK, COMMERCE

E.O. 11652: N/A

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SUBJ: CHANGES IN MULTIPLE FOREIGN EXCHANGE RATES

REF: A) B.A. 5198; B) B.A. 4636; C) B.A. 4715;

D) B.A. 3700

1. CENTRAL BANK CIRCULAR RC 650 DATED SEPT 6, MODIFIED AGAIN FOREIGN EXCHANGE RATE MIXES FOR IMPORTS AND EXPORTS. MOST IMPORTS WERE SHIFTED TO THE FREE MARKET RATE, INCREASING THEIR COSTS APPROXIMATELY 16 PERCENT, WHILE CHANGES IN EXPORT RATES FAVORED ONLY TRADITIONAL EXPORTS WITH A 3 PERCENT INCREASE IN THE MIXED RATE. OFFICIAL RATE CONTINUES AT 140 PESOS PER DOLLAR AND FREE MARKET RATE IS NOW 247 AND 252 PESOS PER DOLLAR, REPECTIVELY SELLING AND BUYING. MAJOR CHANGES, COMPARED WITH PREVIOUS REGIME, ARE REPORTED BELOW.

2. EXCHANGE RATES FOR IMPORTS.

-PRODUCTS IN LIST A ANNEXED TO RC 628 (FUELS AND NEWSPRINT) ARE NOW PAID AT A MIXED RATE OF 53 PERCENT OFFICIAL AND 47 PERCENT FREE MARKET RATE (FORMERLY 78 AND 22 PERCENT RESPECTIVELY), REPRESENTING AN EFFECTIVE DEVALUATION OF 16.9 PERCENT.

-PRODUCTS IN LIST B (CONSUMER AND CAPITAL GOODS) AND IN LIST C (FREIGHT AND INSURANCES) BOTH ANNEXED TO RC 628 ARE NOW PAID ENTIERLY THROUGH THE FREE MARKET RATE (PREVIOUSLY 31 PERCENT

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OFFICIAL AND 69 PERCENT FREE RATE), AND EFFECTIVE DEVALUATION

OF 15.9 PERCENT.

-PRODUCTS IN LIST D ATTACHED TO RC 631 (LUXURY AND NON-ESSENTIAL ITEMS), AS BEFORE ARE TRANSACTED ENTIRELY THROUGH THE FREE MARKET RATE.

-PRODUCTS NOT INCLUDED IN ABOVE-MENTIONED LISTS (RAW MATERIALS AND ESSENTIAL INDUSTRIAL INPUTS) ARE PAID AT 53 PERCENT OFFICIAL AND 47 PERCENT FREE RATE, AS PREVIOUSLY.

IN ADDITION, RC 650 ALLOWS IMPORTERS TO MAKE A CASH PAYMENT UP TO 30 PERCENT OF THE FOB VALUE (PREVIOUSLY 15 PERCENT). THE BALANCE SHOULD BE PAID IN ACCORDANCE WITH PREVIOUS REGULATIONS WITH A MINIMUM TERM OF 180 DAYS. CAPITAL GOODS IMPORTS REMAIN SUBJECT TO PAYMENT TERMS ESTABLISHED BY RC 641 (REFTEL B). ANOTHER RESOLUTION (167) AUTHORIZED 100 PERCENT CASH PAYMENT FOR IMPORTS FROM LAFTA COUNTRIES AND MAKES OPTIONAL THE PURCHASE OF "FOREIGN TRADE AND INVESTMENT BONDS" WHEN PAYMENT IS MADE ON TERMS OF UP TO 180 DAYS. RC 632 (PARA. 3 REFTEL D) MADE THE PURCHASE OF BONDS OBLIGATORY FOR ALL IMPORTS, EXCEPT CAPITAL GOODS AND PUBLIC SECTOR IMPORTS, AS A MEANS OF COVERAGE AGAINST DEVALUATION.

3. EXCHANGE RATES FOR EXPORTERS.

FEW CHANGES WERE INTRODUCED ON THE EXPORT SIDE. AS BEFORE, SUBSIDIZED EXPORTS ON LIST IA ANNEXED TO RC 645 (MOSTLY MANUFACTURES) AND EXPORT CONTRACTS FOR TURNKEY PLANTS CONTINUE TO RECEIVE THE FULL FREE MARKET RATE. ALL OTHER EXPORTS (MAINLY PRIMARY PRODUCTS) WILL NOW RECEIVE A MIXED RATE OF 25 PERCENT OFFICIAL AND 75 PERCENT FREE RATE (PREVIOUSLY 31 AND 69 PERCENT RESPECTIVELY) AN EFFECTIVE DEVALUATION OF 3 PERCENT ON THE MIXED RATE. NO CHANGES WERE ANNOUNCED IN EXPORT TAXES AND SUBSIDIES.

4. FOREIGN FINANCIAL LOANS:

RC 642 (REFTEL C) ESTABLISHED THAT REPAYMENT OF LOANS ENTERING PRIOR TO JUL 12 SHOULD BE TRANSACTED AT THE OFFICIAL RATE; RC 650 NOW ESTIPULATES A MIXED RATE OF 53 PERCENT OFFICIAL AND 47 PERCENT FREE RATE FOR REPAYMENT AND INTEREST OF LOANS CONTRACTED BEFORE JUL 12; ONLY SWAPS CONTINUE TO USE THE OFFICIAL RATE OF EXCHANGE AND LOANS WIEHT A TERM OF OVER 180 DAYS ENTERED AFTER JUL 12 CONTINUE TO BE TRANSACTED ENTIERLY THROUGH THE FREE MARKET RATE.

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CENTRAL BANK TELEPHONE COMMUNIQUE 3642 RAISED THE ANNUAL PREMIUM FOR FORWARD FOREIGN EXCHANGE COVER FOR SWAPS TO 50 PERCENT PAYABLE IN ADVANCE (FORMERLY 47 PERCENTL).

5. COMMENT: THE CENTRAL BANK'S LATEST CHANGE IN THE FREE MARKET/OFFICIAL FOREIGN EXCHANGE RATE MIXES IS THE FIFTH SINCE THE PRESENT GOVERNMENT ASSUMED POWER IN MARCH AND REPRESENTS ONE FURTHER STEP TOWARD A SINGLE FREE MARKET

RATE FOR ALL FOREIGN TRANSACTIONS; THE INCREASE IN THE
PERMITTED PERCENTAGE CASH PAYMENT FOR IMPORTS REFLECTS
ARGENTINA'S IMPROVED BALANCE OF PAYMENT POSITION; THE RAISE
IN THE INSURANCE PREMIUM FOR SWAPS IS DESIGNED TO DISCOURAGE
RENEWAL OF SWAP CREDITS (GOA IS COMMITTED TO REDUCE LEVEL
OF SWAP DEBT - CURRENTLY \$1.1 BILLION - TO \$600 MILLION BY
THE END OF THE YEAR).

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